

PERAC AUDIT REPORT



Massachusetts Housing Finance Agency
Contributory Retirement System



JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 10-054-05



TABLE OF CONTENTS

| | |
|--|----|
| Letter from the Executive Director | 1 |
| Explanation of Findings and Recommendations | 2 |
| Statement Of Ledger Assets And Liabilities | 4 |
| Statement Of Changes In Fund Balances | 5 |
| Statement Of Income | 6 |
| Statement Of Disbursements..... | 7 |
| Investment Income..... | 8 |
| Statement Of Allocation Of Investments Owned | 9 |
| Supplementary Investment Regulations | 10 |
| <u>Notes to Financial Statements:</u> | |
| Note 1 - The System..... | 11 |
| Note 2 - Significant Accounting Policies..... | 12 |
| Note 3 - Supplementary Membership Regulations..... | 13 |
| Note 4 - Administration Of The System | 14 |
| Note 5 - Actuarial Valuation And Assumptions | 15 |
| Note 6 - Membership Exhibit..... | 16 |

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

July 6, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Massachusetts Housing Finance Agency Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2002 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

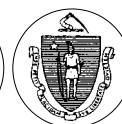
In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Massachusetts Housing Finance Agency Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

1. Review of Minutes and Board Member Attendance

The Auditor reviewed Board Meeting Minutes from January, 2002 through August, 2005. This review revealed that a member of the Board had a greater than twenty-five per cent absentee rate during those periods. This member was absent from forty-one percent of the meetings held in 2002, fifty-eight percent in both 2003 and 2004, and sixty-two percent through August 2005.

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent or more is considered excessive. It is the Board's responsibility to advise members who fail to uphold their duties to the System, and to take appropriate action with such members, when necessary. The Board may want to consider either adjusting the meeting time or requesting the Agency replace their appointed member.

Board Response:

Preliminary audit findings cited excessive absences from Board Meetings by one Board member. This member is a solo practice lawyer located in the western part of Massachusetts. This type of work situation and geographic location at times makes Board attendance difficult because of court appearances and the need to attend real estate closings where this individual attorney has little control over scheduling. The need to minimize or eliminate absences had been discussed with this Board member and will be monitored on an ongoing basis by the remaining Board members. Additionally, a system is being set up to allow for telephonic conferences in situations when this is possible to alleviate physical absences from Board meetings.

2. Annual Statement

The 2003 Annual Statement submitted to PERAC contained several errors. The Balance Test page was neither in agreement with the Assets and Liabilities page nor with the Change in Fund Balance page.

Recommendation:

The Annual Statement is the primary source of financial information for third parties. They must provide complete and accurate information which will allow a reader to make a knowledgeable assessment of the systems financial condition without referencing the general ledger. Prior to the submission of the Annual Statement, a review process should be established to ensure that all entries on the Annual Statement agree, and reconcile to the General Ledger. A revised Annual Statement should be submitted to PERAC.

Board Response:

The Retirement Board's accountant has been reminded of the importance of careful preparation of the Annual Statement and review of the financial information prior to submission to PERAC to eliminate erroneous information from being submitted. A further review process using the

Massachusetts Housing Finance Agency Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

accounting staff of MassHousing will also examine the financial information to be submitted to PERAC to ensure all entries on the Annual Statement agree and reconcile with the General Ledger.

3. Contracts

A sample of contracts in place with the Board was reviewed. One contract contained an indemnification clause, which granted the real estate fund "...to indemnify and hold harmless the Company, the Manager, the members of the Advisory Council..." This is in violation of 840 CMR 16.02(5) which states "No contract shall contain a provision which requires the indemnification of the manager by the retirement board."

Recommendation:

The Board must negotiate an amendment to the contract, which removes the indemnification clause. Also, the Board should conduct a review of all contracts to ensure that indemnification clauses are not included.

Board Response:

The indemnification clause cited in the audit was located in a contract executed with ING Clarion through which the Board has invested in a real estate fund. This company has been contacted about this problem, and its response is found in a letter dated April 3, 2006. By separate communication, this response has been submitted to PERAC to determine if this letter suffices to resolve the issue. Upon receipt of PERAC's response, I will make an additional response to this preliminary audit finding.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that appropriate actions have been taken regarding all audit findings.

Massachusetts Housing Finance Agency Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

| FOR THE PERIOD ENDING DECEMBER 31, | | | |
|---|----------------------------|----------------------------|----------------------------|
| ASSETS | 2004 | 2003 | 2002 |
| Cash | \$807,780 | \$1,133,015 | \$1,412,287 |
| Short Term Investments | - | - | - |
| Fixed Income Securities (at book value) | 17,657,210 | 13,903,541 | 13,143,632 |
| Equities | 10,146,100 | 9,899,691 | 15,437,422 |
| Pooled Short Term Funds | - | - | - |
| Pooled Domestic Equity Funds | 13,423,127 | 10,197,239 | - |
| Pooled International Equity Funds | 6,133,820 | 5,089,659 | 3,900,173 |
| Pooled Global Equity Funds | - | - | - |
| Pooled Domestic Fixed Income Funds | - | - | - |
| Pooled International Fixed Income Funds | - | - | - |
| Pooled Global Fixed Income Funds | - | - | - |
| Pooled Alternative Investment Funds | 933,653 | 1,206,883 | 917,718 |
| Pooled Real Estate Funds | 786,665 | 3,186,161 | 3,010,553 |
| Pooled Domestic Balanced Funds | - | - | - |
| Pooled International Balanced Funds | - | - | - |
| PRIT Cash Fund | - | - | - |
| PRIT Core Fund | - | - | - |
| Interest Due and Accrued | 163,244 | 127,740 | 131,252 |
| Accounts Receivable | 4,112 | 4,112 | 4,112 |
| Accounts Payable | - | - | (36,872) |
| TOTAL | <u>\$50,055,712</u> | <u>\$44,748,041</u> | <u>\$37,920,278</u> |
| FUND BALANCES | | | |
| Annuity Savings Fund | \$18,428,012 | \$16,185,973 | 14,207,006 |
| Annuity Reserve Fund | 3,609,238 | 3,836,375 | 4,081,271 |
| Pension Fund | 1,697,936 | 2,278,988 | 2,969,098 |
| Military Service Fund | - | - | - |
| Expense Fund | - | - | - |
| Pension Reserve Fund | 26,320,525 | 22,446,705 | 16,662,902 |
| TOTAL | <u>\$50,055,712</u> | <u>\$44,748,041</u> | <u>\$37,920,278</u> |

Massachusetts Housing Finance Agency Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

| | Annuity Savings Fund | Annuity Reserve Fund | Pension Fund | Military Service Fund | Expense Fund | Pension Reserve Fund | Total All Funds |
|---------------------------------|-------------------------------------|-------------------------------------|---------------------------|--------------------------------------|-------------------------|-------------------------------------|--------------------------------|
| Beginning Balance (2002) | \$13,746,083 | \$2,907,011 | \$4,103,069 | - | - | \$19,499,171 | \$40,255,334 |
| Receipts | 2,274,164 | 104,798 | 191,916 | 0 | 523,162 | (2,836,269) | 257,771 |
| Interfund Transfers | (1,457,017) | 1,457,017 | 0 | 0 | 0 | 0 | 0 |
| Disbursements | (356,223) | (387,556) | (1,325,887) | 0 | (523,162) | 0 | (2,592,827) |
| Ending Balance (2002) | 14,207,006 | 4,081,271 | 2,969,098 | 0 | 0 | 16,662,902 | 37,920,278 |
| Receipts | 2,240,164 | 116,880 | 891,348 | 0 | 585,475 | 5,761,366 | 9,595,232 |
| Interfund Transfers | (74,692) | 52,255 | 0 | 0 | 0 | 22,437 | 0 |
| Disbursements | (186,505) | (414,031) | (1,581,458) | 0 | (585,475) | 0 | (2,767,468) |
| Ending Balance (2003) | 16,185,973 | 3,836,375 | 2,278,988 | 0 | 0 | 22,446,705 | 44,748,041 |
| Receipts | 2,333,982 | 110,685 | 1,006,278 | 0 | 569,520 | 3,873,820 | 7,894,286 |
| Interfund Transfers | (64,492) | 64,492 | | | | | 0 |
| Disbursements | (27,451) | (402,314) | (1,587,330) | 0 | (569,520) | 0 | (2,586,615) |
| Ending Balance (2004) | <u>\$18,428,012</u> | <u>\$3,609,238</u> | <u>\$1,697,936</u> | <u>\$0</u> | <u>\$0</u> | <u>\$26,320,525</u> | <u>\$50,055,712</u> |

Massachusetts Housing Finance Agency Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

| | FOR THE PERIOD ENDING DECEMBER 31, | | |
|--|---|---------------------------|---------------------------|
| | 2004 | 2003 | 2002 |
| Annuity Savings Fund: | | | |
| Members Deductions | \$2,154,864 | \$2,036,620 | \$1,870,102 |
| Transfers from other Systems | 50,381 | 44,345 | 187,482 |
| Member Make Up Payments and Redeposits | 31,762 | 18,315 | 34,606 |
| Investment Income Credited to Member Accounts | 96,975 | 140,884 | 181,974 |
| Sub Total | <u>2,333,982</u> | <u>2,240,164</u> | <u>2,274,164</u> |
| Annuity Reserve Fund: | | | |
| Investment Income Credited Annuity Reserve Fund | <u>110,685</u> | <u>116,880</u> | <u>104,798</u> |
| Pension Fund: | | | |
| 3 (8) (c) Reimbursements from Other Systems | 217,704 | 200,276 | 191,916 |
| Received from Commonwealth for COLA and Survivor Benefits | - | - | - |
| Pension Fund Appropriation | 788,574 | 691,072 | - |
| Sub Total | <u>1,006,278</u> | <u>891,348</u> | <u>191,916</u> |
| Military Service Fund: | | | |
| Contribution Received from Municipality on Account of Military Service | - | - | - |
| Investment Income Credited Military Service Fund | - | - | - |
| Sub Total | <u>0</u> | <u>0</u> | <u>0</u> |
| Expense Fund: | | | |
| Expense Fund Appropriation | - | - | - |
| Investment Income Credited to Expense Fund | 569,520 | 585,046 | 523,162 |
| Sub Total | <u>569,520</u> | <u>585,046</u> | <u>523,162</u> |
| Pension Reserve Fund: | | | |
| Federal Grant Reimbursement | - | - | - |
| Pension Reserve Appropriation | - | - | - |
| Interest Not Refunded | 106 | 2,330 | 5,634 |
| Excess Investment Income | 3,873,714 | 5,741,395 | (2,841,903) |
| Sub Total | <u>3,873,820</u> | <u>5,743,725</u> | <u>(2,836,269)</u> |
| TOTAL RECEIPTS | <u>\$7,894,286</u> | <u>\$9,577,162</u> | <u>\$257,771</u> |

Massachusetts Housing Finance Agency Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

| | FOR THE PERIOD ENDING DECEMBER 31, | | |
|--|---|---------------------------|---------------------------|
| | 2004 | 2003 | 2002 |
| Annuity Savings Fund: | | | |
| Refunds to Members | \$27,451 | \$186,505 | \$240,669 |
| Transfers to other Systems | - | - | 115,554 |
| Sub Total | <u>27,451</u> | <u>186,505</u> | <u>356,223</u> |
| Annuity Reserve Fund: | | | |
| Annuities Paid | 402,314 | 402,038 | 352,858 |
| Option B Refunds | - | 11,993 | 34,698 |
| Sub Total | <u>402,314</u> | <u>414,031</u> | <u>387,556</u> |
| Pension Fund: | | | |
| Pensions Paid | | | |
| Regular Pension Payments | 1,490,192 | 1,467,429 | 1,212,519 |
| Survivorship Payments | 13,084 | 12,559 | 12,194 |
| Ordinary Disability Payments | 14,523 | 14,217 | 13,803 |
| Accidental Disability Payments | 68,918 | 68,414 | 67,478 |
| Accidental Death Payments | - | - | - |
| Section 101 Benefits | - | - | - |
| 3 (8) (c) Reimbursements to Other Systems | 615 | 18,839 | 19,894 |
| State Reimbursable COLA's Paid | | | - |
| Chapter 389 Beneficiary Increase Paid | | | - |
| Sub Total | <u>1,587,330</u> | <u>1,581,458</u> | <u>1,325,887</u> |
| Military Service Fund: | | | |
| Return to Municipality for Members Who Withdrew Their Funds | <u>0</u> | <u>0</u> | <u>0</u> |
| Expense Fund: | | | |
| Board Member Stipend | 15,000 | 15,000 | 15,000 |
| Salaries | 173,230 | 170,155 | 138,094 |
| Legal Expenses | - | - | - |
| Medical Expenses | - | - | - |
| Travel Expenses | 5,316 | 11,834 | 6,102 |
| Administrative Expenses | 27,266 | 38,541 | 40,183 |
| Furniture and Equipment | - | - | - |
| Management Fees | 267,999 | 254,427 | 233,234 |
| Custodial Fees | 37,946 | 69,267 | 51,798 |
| Consultant Fees | <u>42,763</u> | <u>26,250</u> | <u>38,750</u> |
| Sub Total | <u>569,520</u> | <u>585,475</u> | <u>523,162</u> |
| TOTAL DISBURSEMENTS | <u>\$2,586,615</u> | <u>\$2,767,468</u> | <u>\$2,592,827</u> |

Massachusetts Housing Finance Agency Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

| | FOR THE PERIOD ENDING DECEMBER 31, | | |
|---|---|---------------------------|-----------------------------|
| | 2004 | 2003 | 2002 |
| Investment Income Received From: | | | |
| Cash | \$11,944 | \$1,682 | \$4,143 |
| Short Term Investments | - | - | - |
| Fixed Income | 934,439 | 840,094 | 1,078,123 |
| Equities | 104,872 | 293,331 | 196,284 |
| Pooled or Mutual Funds | 289,676 | 157,747 | 160,123 |
| Commission Recapture | <u>4,736</u> | <u>30,904</u> | <u>15,840</u> |
| TOTAL INVESTMENT INCOME | <u>1,345,667</u> | <u>1,323,757</u> | <u>1,454,514</u> |
| Plus: | | | |
| Increase in Amortization of Fixed Income Securities | - | - | - |
| Realized Gains | 2,058,121 | 3,010,323 | 618,670 |
| Unrealized Gains | 2,503,859 | 3,979,899 | 969,184 |
| Interest Due and Accrued on Fixed Income Securities - Current Year | <u>163,244</u> | <u>127,740</u> | <u>131,252</u> |
| Sub Total | <u>4,725,224</u> | <u>7,117,963</u> | <u>1,719,105</u> |
| Less: | | | |
| Decrease in Amortization of Fixed Income Securities | - | - | - |
| Paid Accrued Interest on Fixed Income Securities | (151,385) | (105,526) | (95,032) |
| Realized Loss | (829,021) | (1,501,390) | (3,311,045) |
| Unrealized Loss | (311,850) | (101,277) | (1,621,433) |
| Custodial Fees Paid | - | - | - |
| Consultant Fees Paid | - | - | - |
| Management Fees Paid | - | - | - |
| Board Member Stipend | - | - | - |
| Interest Due and Accrued on Fixed Income Securities - Prior Year | <u>(127,740)</u> | <u>(131,252)</u> | <u>(178,079)</u> |
| Sub Total | <u>(1,419,996)</u> | <u>(1,839,445)</u> | <u>(5,205,589)</u> |
| NET INVESTMENT INCOME | <u>4,650,894</u> | <u>6,602,275</u> | <u>(2,031,969)</u> |
| Income Required: | | | |
| Annuity Savings Fund | 96,975 | 140,884 | 181,974 |
| Annuity Reserve Fund | 110,685 | 116,880 | 104,798 |
| Military Service Fund | - | - | - |
| Expense Fund | <u>569,520</u> | <u>585,475</u> | <u>523,162</u> |
| TOTAL INCOME REQUIRED | <u>777,180</u> | <u>843,238</u> | <u>809,934</u> |
| Net Investment Income | <u>4,650,894</u> | <u>6,602,275</u> | <u>(2,031,969)</u> |
| Less: Total Income Required | <u>777,180</u> | <u>843,238</u> | <u>809,934</u> |
| EXCESS INCOME TO THE PENSION RESERVE FUND | <u>\$3,873,714</u> | <u>\$5,759,037</u> | <u>(\$2,841,903)</u> |

Massachusetts Housing Finance Agency Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

| | MARKET VALUE | PERCENTAGE OF TOTAL ASSETS | PERCENTAGE ALLOWED |
|---|----------------------------|---|-------------------------------|
| Cash | \$807,780 | 1.62% | 100 |
| Short Term | | 0.00% | 100 |
| Fixed Income | 17,657,210 | 35.39% | 40 - 80 |
| Equities | 10,146,100 | 20.34% | 40 |
| Pooled Short Term Funds | | 0.00% | |
| Pooled Domestic Equity Funds | 13,423,127 | 26.91% | |
| Pooled International Equity Funds | 6,133,820 | 12.30% | |
| Pooled Global Equity Funds | | 0.00% | |
| Pooled Domestic Fixed Income Funds | | 0.00% | |
| Pooled International Fixed Income Funds | | 0.00% | |
| Pooled Global Fixed Income Funds | | 0.00% | |
| Pooled Alternative Investment Funds | 933,653 | 1.87% | 5 |
| Pooled Real Estate Funds | 786,665 | 1.58% | 5 |
| Pooled Domestic Balanced Funds | | 0.00% | |
| Pooled International Balanced Funds | | 0.00% | |
| PRIT Cash Fund | | 0.00% | |
| PRIT Core Fund | | <u>0.00%</u> | 100 |
| GRAND TOTALS | <u>\$49,888,356</u> | <u>100.00%</u> | |

For the year ending December 31, 2004, the rate of return for the investments of the Massachusetts Housing Finance Agency Retirement System was 11.19%. For the five-year period ending December 31, 2004, the rate of return for the investments of the Massachusetts Housing Finance Agency Retirement System averaged 3.43%. For the twenty-year period ending December 31, 2004, since PERAC began evaluating the returns of retirement systems, the rate of return of the investments of the Massachusetts Housing Finance Agency Retirement System was 8.75%.

Massachusetts Housing Finance Agency Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Massachusetts Housing Finance Agency Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

December 19, 2003

16.08 In accordance with PERAC Investment Guideline 99-3, the Massachusetts Housing Finance Authority Retirement Board may invest in Ascent Venture Partners IV, L.P. The system has had a satisfactory relationship and favorable investment results in its investment in Ascent's two prior partnerships.

October 5, 1999

16.08 In accordance with PERAC Investment Guideline 99-3, the Massachusetts Housing Finance Authority Retirement Board may invest in Ascent Venture Partners III, L.P. The system is an investor in Ascent Partners II, L.P. and has submitted the required documentation to justify investing in Ascent Venture Partners III.

March 14, 1996

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:

- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.

20.09(3) All venture capital investments shall be made in companies which have their principal places of business in the United States.

Massachusetts Housing Finance Agency Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Massachusetts Housing Finance Agency Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Massachusetts Housing Finance Agency Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Massachusetts Housing Finance Agency Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Massachusetts Housing Finance Agency Retirement System has not submitted any supplementary membership regulations to PERAC.

Massachusetts Housing Finance Agency Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Agency Treasurer who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Andris Silins

Appointed Member: Christopher Johnson Term Expires: 11/8/05

Elected Member: Michael Fitzmaurice Term Expires: 12/10/07

Elected Member: Antonio Torres Term Expires: 6/30/06

Appointed Member: Paul T. Hynes Term Expires: 12/31/05

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

| | | |
|------------------------|---|------------------------|
| Treasurer - Custodian: |) | |
| Ex officio Member: |) | \$50,000,000 Fiduciary |
| Elected Member: |) | \$1,000,000 Fidelity |
| Appointed Member: |) | MACRS Policy |
| Staff Employee: |) | |

Massachusetts Housing Finance Agency Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by John Hancock as of January 1, 2005.

| | |
|---|---------------------------|
| The actuarial liability for active members was | \$31,904,292 |
| The actuarial liability for vested terminated members was | 2,015,283 |
| The actuarial liability for non-vested terminated members was | 594,948 |
| The actuarial liability for retired members was | <u>20,130,564</u> |
| The total actuarial liability was | 54,645,087 |
| System assets as of that date were | <u>50,060,483</u> |
| The unfunded actuarial liability was | <u>\$4,584,604</u> |
| The ratio of system's assets to total actuarial liability was | 91.6% |
| As of that date the total covered employee payroll was | \$23,904,820 |

The normal cost for employees on that date was 8.8% of payroll

The normal cost for the employer was 2.4% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: Varies by group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Cov. Payroll ((b-a)/c) |
|--------------------------------|--|--|--------------------------------------|----------------------------|-----------------------------|--|
| 1/1/2005 | \$50,060,483 | \$54,645,087 | \$4,584,604 | 91.6% | \$23,904,820 | 19.18% |
| 1/1/2004 | \$44,748,041 | \$49,755,403 | \$5,007,362 | 89.9% | \$22,669,341 | 22.09% |
| 1/1/2003 | \$37,920,278 | \$43,338,612 | \$5,418,334 | 87.5% | \$21,368,485 | 25.36% |
| 1/1/2002 | \$40,255,334 | \$39,499,764 | (\$755,570) | 101.9% | \$20,321,907 | -3.72% |

Massachusetts Housing Finance Agency Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

| Retirement in Past Years | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Superannuation | 0 | 4 | 21 | 5 | 3 | 4 | 10 | 16 | 0 | 1 |
| Ordinary Disability | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accidental Disability | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Retirements | 0 | 4 | 21 | 5 | 3 | 4 | 10 | 16 | 0 | 1 |
| Total Retirees, Beneficiaries and Survivors | 25 | 28 | 50 | 53 | 54 | 56 | 64 | 78 | 78 | 77 |
| Total Active Members | 368 | 366 | 312 | 291 | 308 | 311 | 326 | 326 | 346 | 345 |
| Pension Payments | | | | | | | | | | |
| Superannuation | \$309,968 | \$337,830 | \$596,480 | \$756,728 | \$800,254 | \$825,423 | \$980,434 | \$1,212,519 | \$1,467,429 | \$1,490,192 |
| Survivor/Beneficiary Payments | 0 | 0 | 19,032 | 12,805 | 6,833 | 11,242 | 11,580 | 12,194 | 12,559 | 13,084 |
| Ordinary Disability | 12,528 | 12,572 | 12,291 | 12,417 | 12,621 | 12,981 | 13,370 | 13,803 | 14,217 | 14,523 |
| Accidental Disability | 67,910 | 68,000 | 64,454 | 64,706 | 65,114 | 65,834 | 66,554 | 67,478 | 68,414 | 68,918 |
| Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>19,894</u> | <u>18,839</u> | <u>615</u> |
| Total Payments for Year | <u>\$390,406</u> | <u>\$418,402</u> | <u>\$692,257</u> | <u>\$846,656</u> | <u>\$884,822</u> | <u>\$915,480</u> | <u>\$1,071,938</u> | <u>\$1,325,887</u> | <u>\$1,581,458</u> | <u>\$1,587,330</u> |

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac